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4 December 1987

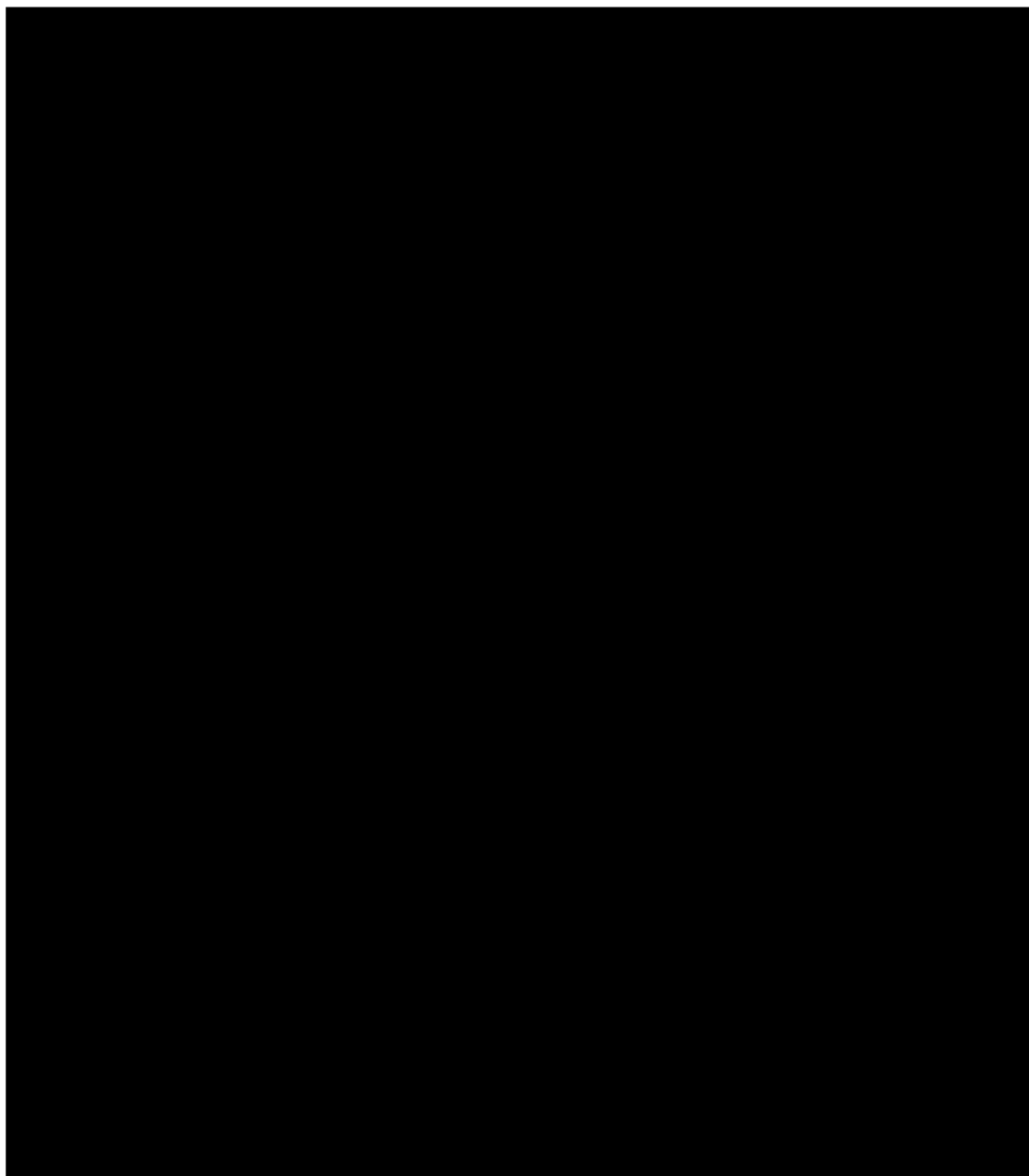
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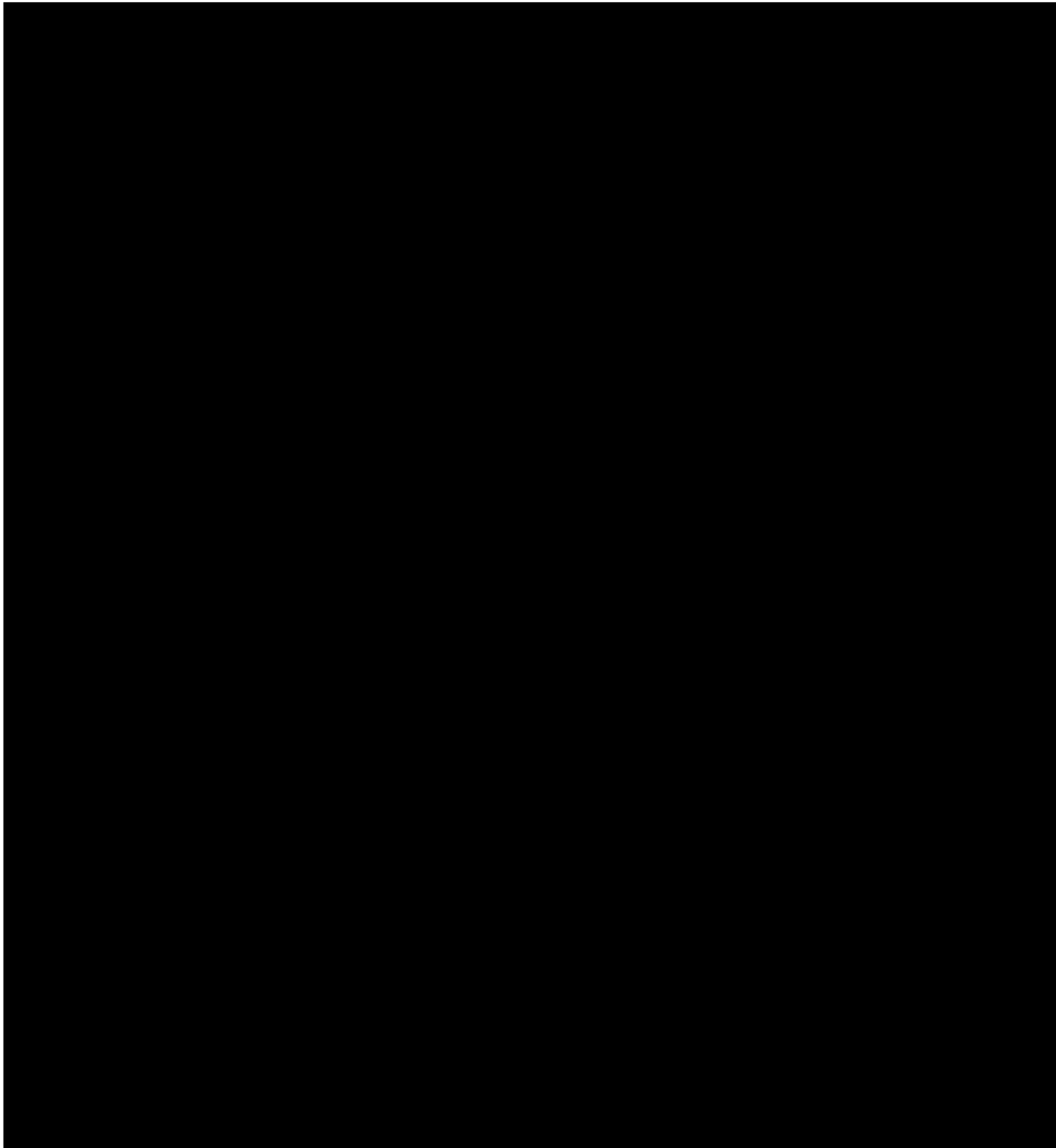
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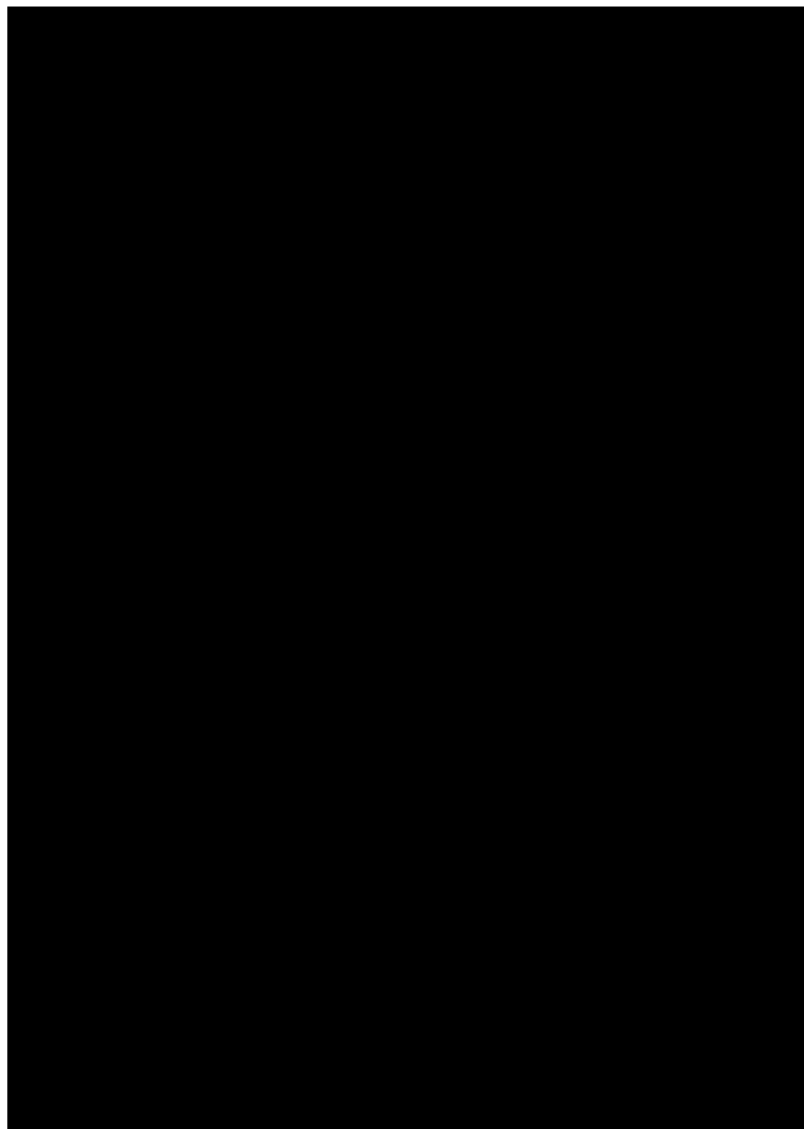
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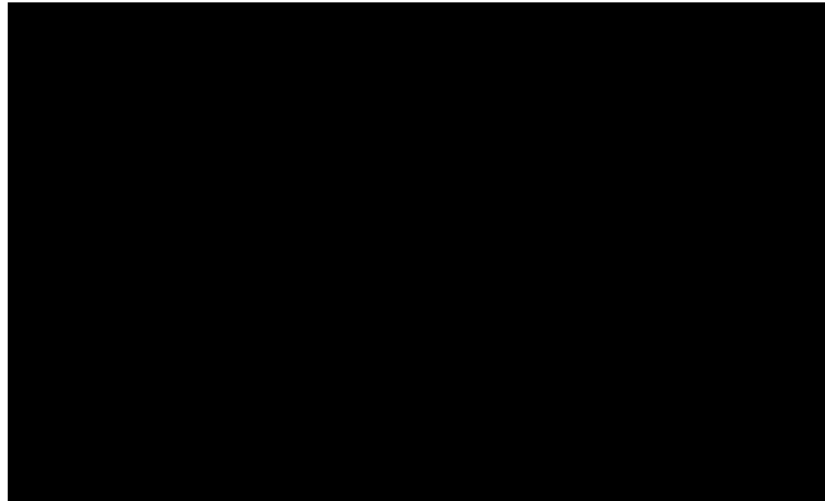


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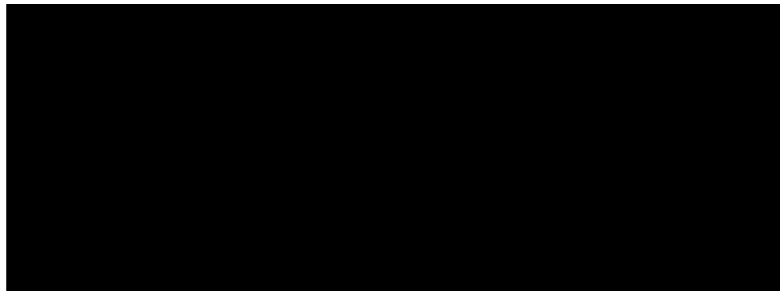
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Nepal: Relations With India and China ()

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Although Nepal's closest ties are to India, there are several disputed issues between them. Kathmandu is worried that New Delhi's intervention in Sri Lanka is just the beginning of Indian efforts to assert its authority in the region. As a result, Kathmandu has recently pursued closer relations with Beijing. ()

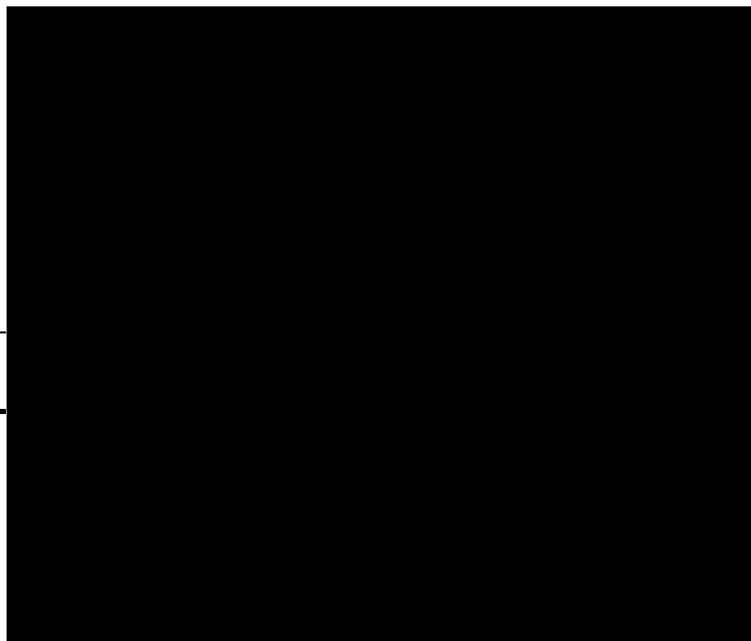


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Nepal: Relations With India and China

Nepal has long struggled to balance its relations between its two powerful neighbors, India and China. Although Nepal's closest ties are to India, there are several disputed issues between them. Most recently Nepal has been concerned about India's intentions toward its smaller neighbors now that New Delhi has intervened militarily in Sri Lanka. Kathmandu worries that the Sri Lankan episode is just the beginning of India's efforts to assert its authority in the region militarily. As a result, Kathmandu has pursued closer ties to Beijing. Nepal sees China as less threatening and believes that it can expand relations without Beijing dictating policy. Kathmandu's turn to Beijing, however, does not signal an end to cordial Indo-Nepalese relations. Nepal will continue to seek a resolution to its differences with India in hopes that it can maintain their beneficial economic and political ties.

Living With India

Nepal's most significant geographic, cultural, and economic ties are to India. Under the Treaty of Peace and Friendship of July 1950, the cornerstone of Indo-Nepalese relations, the two have outlined the support each would give the other in times of trouble as well as the rights and privileges its citizens would have in the other's country. Under the terms of the treaty, Indians and Nepalis are free to reside and work in both countries without restriction. India has long employed Nepalese Gorkhas for light infantry fighting in the Indian Army.

the remittances sent home by these recruits are an important source of income for Nepal's economy. The treaty also allows Nepal to import from India arms, ammunition, and military equipment.

In 1950 India and Nepal signed a Treaty of Trade and Commerce, which set forth the conditions under which the two conduct business. The most important aspect of this agreement is the provision that allows Kathmandu to import and export commodities through Indian ports without paying tariffs. India is

Nepal's largest trading partner and accounts for almost half its trade.

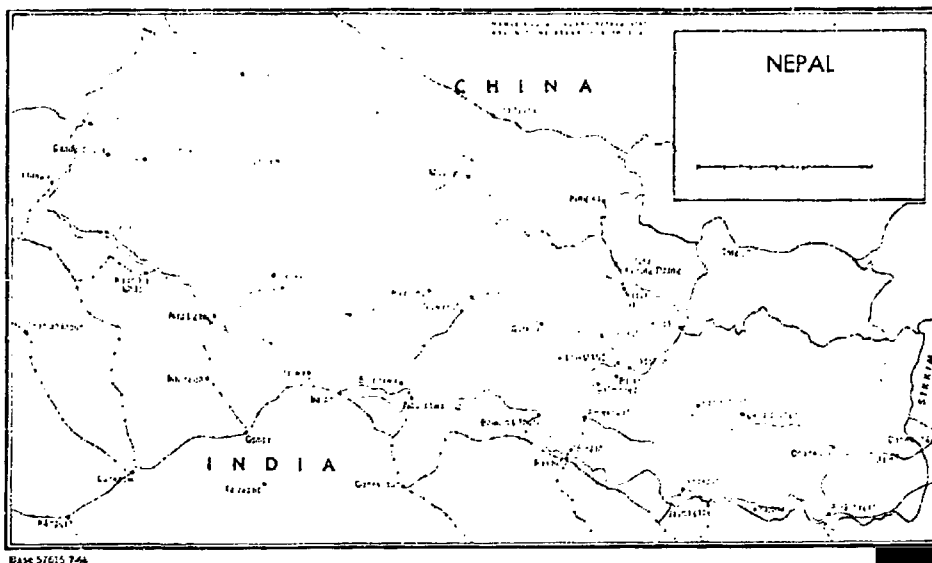
India also provides substantial assistance for Nepalese development projects, including road and factory construction, hydroelectric power plants, and irrigation schemes. The two countries recently expanded their economic relationship with the establishment of the Indo-Nepalese Joint Commission to promote cooperation in trade, transit, industry, and power.

Irritants in the Relationship

Despite the extensive ties between India and Nepal, relations are strained by differences over several policy issues. Nepal has long bristled over India's efforts to interfere in internal Nepalese affairs. Kathmandu particularly resents New Delhi's financial support to Nepalese politicians to promote Indian interests in the government.

Nepal is concerned about India's strong influence in the Terai—the lowlands along Nepal's southern border with India. Many Indians have taken advantage of the liberal immigration provisions of the 1950 Friendship Treaty to move to the agriculturally productive Terai from economically depressed regions in northern India. This has created fierce competition between native Nepalese and Indian immigrants for

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land and jobs. [REDACTED]

New Delhi's attempts to influence Kathmandu's foreign policy have caused minor irritation among Nepal's leaders. One of the more contentious issues is India's refusal to support Nepal's "zone of peace" proposal. Since 1974, King Birendra has solicited support for his proposal to declare Nepal a zone of peace. The proposal stipulates, among other things, that Nepal would be free to establish friendly relations with outside countries, would not join a military alliance, and would not allow foreign military bases on its territory. Ninety countries endorse Nepal's zone of peace proposal, including the United States and China. India argues that Nepal's proposal is unnecessary, because New Delhi's proposal for an Indian Ocean zone of peace protects Nepal. [REDACTED]

Nepal also is upset over India's efforts to restrict Nepalese-Chinese relations. The Indians have long tried to curb Chinese activity in the Nepalese-Indian border area of the Terai because they suspect Beijing

may use its access for espionage. India believes China's presence would threaten its military bases along the Nepalese border. [REDACTED]

[REDACTED] Because of these concerns, New Delhi persuaded Kathmandu in 1985 to renege on an agreement with Beijing to build an important section of an east-west highway in the Terai. Nepal accepted an Indian offer on less favorable financial terms instead. [REDACTED]

Most recently Nepal has expressed concern about India's interference in Sri Lanka. The Nepalese Government believes India's actions undermine Sri Lankan sovereignty and constitute a clear threat to India's smaller neighbors. [REDACTED]

[REDACTED] Nepal fears India's intervention will encourage New Delhi to assert its authority elsewhere in the region, including Nepal. [REDACTED]

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The China Card

As a result of Nepal's concerns about India, Kathmandu has sought to improve relations with China. [REDACTED] Nepal sees China as a less threatening neighbor that does not seek to influence Nepal's policies. [REDACTED]

[REDACTED] King Birendra's recent visit to China was intended primarily as a signal to India that Nepal had a strong friend in China, and, as Nepal's concerns over Indian intentions in the region grow, so would its ties to China. The trip was particularly beneficial to Nepal because the Chinese agreed to expand its economic development assistance.¹

[REDACTED]

Military assistance and cooperation have become important aspects of the Nepalese-Chinese relationship.

[REDACTED]

¹ Nepalese-Chinese trade amounts to \$14.95 million. Beijing has funded nearly 30 projects, including textile, paper, and brick and tile manufacturing, irrigation, and road construction. [REDACTED]

Outlook

Kathmandu probably hopes to maintain the best of both relationships—economic and political ties to New Delhi and political support from Beijing. Nepal is expecting China to serve as a counterweight to India as New Delhi moves to assert its authority in the region. Kathmandu nevertheless will be careful not to alienate New Delhi as it tries to take advantage of Chinese offers of economic and military assistance. Nepal recognizes that there are limits, such as weapons purchases from Beijing, beyond which it cannot go without an Indian backlash. Kathmandu will try to maintain a dialogue with New Delhi on their differences in hopes of achieving a resolution on the less contentious ones. [REDACTED]

India will watch closely the developing Nepalese-Chinese relationship. It will be most concerned about expanding military ties between China and Nepal and will probably remind Kathmandu of its responsibilities under the 1950 Friendship Treaty to protect India from foreign aggressors. India will try to entice Nepal away from China with offers of assistance. [REDACTED]

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